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The Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: Carrier Joint Venture

File: B-233702

Date: March 13, 1989

DIGEST

1. Contracting agency may accept a technically lower-rated proposal to take advantage of its lower labor rates, even though cost is the least important evaluation criterion, so long as agency reasonably decides that the cost premium involved in an award to a higher-rated, higher-cost offeror is not warranted in light of the acceptable level of technical competence available at the lower cost.

2. Since an agency's cost realism analysis of a time and materials contract necessarily involves the exercise of informed judgment, the General Accounting Office will not disturb the results of that analysis unless it clearly lacks a reasonable basis.

3. Award on an initial proposal basis, without discussions, is proper where the solicitation advises offerors of this possibility, and the competition clearly demonstrates that acceptance of an initial proposal will result in the lowest overall cost to the government.

DECISION

Carrier Joint Venture protests the award of a contract to Training Systems Group (TSG), under request for proposals (RFP) No. N00019-88-R-0026, issued by the Department of the Navy for technical and logistical support for the Aviation Training Division of the Naval Air Systems Command (NAVAIR). Carrier alleges that the Navy did not follow the RFP evaluation criteria in evaluating proposals, that the Navy failed to conduct an adequate cost realism analysis of TSG's cost proposal, and that the Navy improperly awarded the contract on the basis of initial proposals.

We deny the protest.

The RFP, issued on July 29, 1988, provided that award would be made to the offeror whose proposal is the most advantageous to the government, all factors considered. The RFP requested the submission of separate technical and cost proposals and contemplated the award of 1-year plus four option years indefinite delivery, indefinite quantity time and materials contract. The RFP contained two principal evaluation criteria, technical and cost, with technical being more important than cost. The RFP specified four technical evaluation criteria which were listed in descending order of importance: (1) technical approach to performing sample tasks; (2) personnel; (3) management plan and manpower utilization matrix; and (4) corporate experience.

Concerning cost, the solicitation, as amended, included precise minimum qualifications and maximum level-of-effort estimates for numerous labor categories--such as Senior Analyst, Senior ADP Systems Analyst, and Research Psychologist. The offeror's fully burdened fixed hourly rate times the maximum level-of-effort estimates for each labor category, as well as certain other direct costs and travel expenses, basically provided the basis for the cost evaluation. The cost evaluation included the base year and all option years. Finally, the RFP also stated that cost proposals would be evaluated for reasonableness and realism, including consideration of actual rates being paid for similar work under other contracts, rates being paid for comparable civil service employees, excessive amounts of uncompensated overtime, and Defense Contract Audit Agency (DCAA) audit information.

Two firms submitted proposals which were included in the competitive range. The protester's proposal was considered "outstanding." TSG's proposal, which was lower in cost, was considered "acceptable." Specifically, the technical rating and cost of each offeror were as follows:

Offeror	Technical Rating	Total 5-Year Cost
Carrier	Outstanding	$84,344,225
TSG	Acceptable	$63,879,285

The Navy determined, without holding discussions, that TSG's offer was most advantageous to the government, cost and other factors considered because of the firm's technically acceptable proposal and lower cost. Further, the agency determined that TSG's proposal represented the lowest overall cost that was fair and reasonable, based on adequate competition and a cost realism analysis. The agency decided to award a contract to TSG. This protest followed.

Carrier first asserts that the award to TSG is improper because the Navy failed to evaluate the proposals consistent with the terms of the solicitation. In this regard, Carrier argues that the RFP required the Navy to evaluate the reasonableness and realism of proposals, including the specific factors listed in the RFP. Carrier argues that the Navy failed to consider these specific factors and thereby failed to make a valid assessment of whether TSG's rates were reasonable and realistic.

The purpose of a cost realism evaluation by an agency under a time and materials type contract is to determine the extent to which the offeror's proposed labor rates and other costs are realistic and reasonable. Since an evaluation of this nature necessarily involves the exercise of informed judgment, the agency clearly is in the best position to make this cost realism determination and, consequently, we will not disturb such a determination absent a showing that it was unreasonable. See Systran Corp., B-228562; B-228562.2, Feb. 29, 1988, 88-1 CPD ¶ 206.

We have reviewed the Navy's cost realism evaluation here in light of Carrier's allegations and find that the results reached were reasonable. In addition to verifying the total maximum contract labor costs proposed, the Navy's cost evaluation consisted of comparing the proposed fully burdened labor rates to recent competitively awarded contracts for similar efforts and to equivalent civil service employee pay rates. In an attempt to detect uncompensated overtime, the Navy states that it performed a random check by dividing the proposed annual salaries by 2,080 hours (40 hours per week for a year) and found no uncompensated overtime in TSG's proposal. The differences in each offeror's proposed fully burdened labor rates were also taken into consideration by the Navy, with specific emphasis on the differences in escalation, overhead, profit and G&A. The record shows that TSG's rates were comparable with recently awarded contracts and with equivalent civil service employee pay rates and that the TSG proposal apparently contained no uncompensated overtime. In short, the record shows that the Navy clearly made an informed judgment as to the realism of TSG's proposed rates.

Nevertheless, Carrier takes exception to the Navy's cost evaluation with respect to the specific factors examined. Carrier argues that the nature of the work requirements under the other contracts selected by the Navy for comparison of rates is not similar to the work required under this solicitation. Carrier also argues that the Navy failed to consider DCAA audit information and failed to provide sufficient information regarding the conduct of the "random checks" used to determine if uncompensated overtime had been proposed.

Initially, we note that, with respect to cost realism, the RFP merely stated that certain specific factors will be taken into consideration. The RFP did not provide that each factor would be evaluated in-depth. Moreover, our Office has held that an agency is not required to conduct an in-depth analysis or to verify each and every item in conducting its cost realism analysis. Marine Design Technologies, Inc., B-221897, May 29, 1986, 86-1 CPD ¶ 502.

Here, the record shows that the Navy used, for comparison purposes, recent competitively awarded contracts containing labor categories of personnel that were generally comparable in experience and education. (The Navy did not compare TSG's proposed labor rates with the rates of the incumbent contractor because the incumbent's contract had been extended twice on a noncompetitive basis for a nine-month period.) The record shows that while the labor categories contained in the other contracts were not identical to those in this solicitation, they were sufficiently similar to permit a rational comparison by the agency. The protester has not shown otherwise. The labor rates proposed by TSG were consistent with these other contracts.

With respect to the Navy's alleged failure to consider DCAA audit information, the record indicates that the Navy informally contacted DCAA which could not provide verification of indirect rates. This is because DCAA did not have information on either offeror as they were both joint ventures specifically established for this procurement. DCAA, however, was able to provide some information regarding the various joint venture members and subcontractors concerning overhead, profit and G&A. We think this was sufficient under the circumstances.1/

Carrier next argues that despite the evaluation scheme established in the RFP, which gave technical factors greater importance than cost, the Navy failed to provide a

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1/ Contrary to the protester's assertions, we also accept the agency's statement that a random check of salaries in TSG's proposal was conducted to detect uncompensated overtime. The protester states that salary information was only submitted for 9 of 20 labor categories and that the Navy's evaluation was therefore limited. We again note that an in-depth cost analysis is not required and that the use of sampling, as here, is sufficient and reasonable.

reasonable justification for awarding the contract based on TSG's technically acceptable proposal as opposed to Carrier's technically outstanding proposal. Specifically, the protester argues that the Navy's ultimate cost versus technical trade-off gave no consideration to the effect a technically outstanding proposal would have on the total cost incurred by the government.

In a negotiated procurement, even if cost is the least important evaluation criterion, an agency properly may award to a lower-priced, lower-scored offeror if it determines that the cost premium involved in awarding to a higher-rated, higher-priced offeror is not justified given the acceptable level of technical competence available at the lower cost. AMG Associates, Inc., B-220565, Dec. 16, 1985, 85-2 CPD ¶ 673. The determining element is not the difference in technical merit, per se, but the contracting agency's judgment concerning the significance of that difference, TEK, J.V. Morrison-Knudsen/Harnischfeger, B-221320 et al., Apr. 15, 1986, 86-1 CPD ¶ 365, and the question in such case is whether the award decision was reasonable in light of the RFP evaluation scheme. Lockheed Corp., B-199741.2, July 31, 1981, 81-2 CPD ¶ 71.

Here, the RFP stated that one contractor would be selected for award based on its proposal being most advantageous to the government, all factors considered. The RFP further stated that "the government may elect to pay a limited price premium to select a proposal which is technically superior." The price difference between the two proposals was $20,465,000. Specifically, Carrier's proposed total price was 32 percent greater than the total price proposed by TSG. The Navy evaluators concluded that TSG was capable of meeting the RFP requirements. On this basis, the Navy determined that award to TSG represented the most advantageous offer to the government. In our opinion, the Navy's decision to award to TSG, as the low technically acceptable offeror, was reasonable and consistent with the RFP's evaluation scheme, given the great disparity in cost between the two proposals.2/

2/ Contrary to the protester's assertions, while the solicitation contained sample tasks to be used to determine each offeror's understanding of the requirements from a technical standpoint, there is no suggestion in the solicitation that the sample tasks would be employed to evaluate the cost realism and reasonableness of labor rates proposed by an offeror.

Finally, Carrier asserts that the award to TSG on the basis of initial proposals is improper because acceptance of TSG's proposal may not reflect the lowest overall cost to the government. In support of its position, Carrier, however, merely disagrees with the Navy's cost evaluation used to determine the lowest overall cost. An agency may award a contract on the basis of initial proposals where the solicitation advises offerors of that possibility and there has been adequate competition to demonstrate that acceptance of an initial proposal will result in the lowest overall cost to the government. See Economic Consulting Services, Inc., B-229895, Apr. 8, 1988, 88-1 CPD ¶ 351.

Here, as previously discussed, the record supports the agency's determination that TSG's rates were reasonable, realistic and low. Further, the RFP notified offerors that award might be made without discussions. As a result, we find that the Navy's decision to make award without discussions was reasonable.

The protest is denied.

for Seymour Efros
James F. Hinchman
General Counsel